

## Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

RSC-01 CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-03 SIL-01

L-02 H-02 PA-02 PRS-01 USIA-15 /110 W

----- 123949

R 151840Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5752

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING NOVEMBER 15

REF: LONDON 14819, 14864, 14865, 14938

BEGIN SUMMARY: ECONOMIC DATA PUBLISHED DURING THE WEEK

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ENDING NOVEMBER 15 GIVES A GRIM BACKDROP TO THE NOVEMBER

12 BUDGET (SEE REFTELS). ON THE INTERNATIONAL SIDE, THE TRADE FIGURES RELEASED NOVEMBER 13 DID NOT LEND SUPPORTIVE EVIDENCE TO STATEMENTS THAT THE NON-OIL DEFICIT CONTINUES TO SHOW IMPROVEMENT. THE DEFICIT ON OIL AND NON-OIL TRADE WIDENED BY 29 AND 38 MILLION POUNDS (S.A.) RESPECTIVELY OVER SEPTEMBER'S DEFICIT, YIELDING AN INCREASE OF 67 MILLION POUNDS IN BOTH THE TOTAL TRADE AND CURRENT ACCOUNT DEFICIT. STERLING WEAKENED APPRECIABLY FOLLOWING THE NOVEMBER 12 BUDGET SPEECH, FALLING 235 POINTS TO \$2.3035 ON WEDNESDAY (NOV 13). THE DISCOUNT ON STERLING AGAINST THE DOLLAR ALSO WIDENED CONSIDERABLY ON WEDNESDAY, CLOSING AT 2.55 CENTS AND 5.50 CENTS FOR THREE AND SIX MONTH FORWARD DELIVERY, RESPECTIVELY. HOWEVER, BOTH THE SPOT AND FORWARD RATES EXHIBITED STRENGTHENING AS THE WEEK ENDED WITH THE RATES MOVING BACK TOWARDS PRE-BUDGET LEVELS. THE AVERAGE EFFECTIVE DEPRECIATION CONTINUED TO WIDEN AS EUROPEAN CURRENCIES STRENGTHENED AGAINST BOTH STERLING AND THE DOLLAR. THURSDAY'S (NOV 14) AVERAGE EFFECTIVE DEPRECIATION OF STERLING (SINCE SMITHSONIAN) AGAINST MAJOR TRADING PARTNERS WAS MEASURED AT 20.3 PERCENT. THE PRICE OF GOLD ROSE TO RECORD LEVELS, CLOSING THURSDAY AT \$188.50, UP \$10.25 FROM LAST THURSDAY'S CLOSE. DOMESTIC ECONOMIC NEWS EMPHASIZED THE DETERIORATING TRENDS ON BOTH EMPLOYMENT/OUTPUT AND PRICES. THE QUARTERLY CONFEDERATION OF BRITISH INDUSTRY (CBI) INDUSTRIAL SURVEY SHOWED BUSINESS CONFIDENCE AT AN EIGHT-YEAR LOW. INDUSTRIAL PRODUCTION DECLINED IN SEPTEMBER AND REAL RETAIL SALES DECLINED IN OCTOBER. GDP INCREASED BY ONE PERCENT IN THE THIRD QUARTER OVER THE SECOND, HOWEVER. TO CAP A BAD WEEK, WHOLESALE PRICES SHOWED SIGNIFICANT INCREASES IN BOTH THE "INPUT" AND THE "OUTPUT" CATEGORY.

END SUMMARY

#### I. INTERNATIONAL

1. THE U.K. TRADE AND CURRENT ACCOUNT DATA FOR OCTOBER DID NOT LEND SUPPORTIVE EVIDENCE TO STATEMENTS THAT THE DEFICIT ON NON-OIL TRADE CONTINUES TO IMPROVE. THE OCTOBER DEFICIT ON OIL-TRADE WAS 330 MILLION POUNDS

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(S.A.) AND 110 MILLION POUNDS (S.A.) FOR NON-OIL TRADE, AN INCREASE OF 29 AND 38 MILLION POUNDS, RESPECTIVELY, OVER SEPTEMBER. (IN DOLLAR TERMS: OIL DEFICIT, \$768.9 MILLION; NON -OIL DEFICIT, \$256.3 MILLION; TOTAL TRADE, DEFICIT \$1,025.2 MILLION; WHEN CONVERTED AT \$2.33.) COMBINED WITH AN ESTIMATED SURPLUS ON INVISIBLE TRADE OF 105 MILLION POUNDS, THE CURRENT ACCOUNT DEFICIT WAS 335 MILLION POUNDS, AN INCREASE OF 67 MILLION POUNDS OVER

SEPTEMBER. SEE LONDON 14938 FOR DETAILS.

2. IN A FLURRY OF TRADING FOLLOWING THE NOVEMBER 12 BUDGET SPEECH, STERLING FELL 235 POINTS FROM MONDAY'S CLOSING RATE OF \$2.3270 TO \$2.3035 AT WEDNESDAY'S LONDON MARKET CLOSING. MARKET SOURCES ATTRIBUTE THE FALL TO A GENERAL MISUNDERSTANDING OF THE STERLING GUARANTEES WHICH WILL BE ALLOWED TO LAPSE ON DECEMBER 31. (SEE LONDON 14864.) HOWEVER, BOTH THE SPOT AND FORWARD RATE VIS-A-VIS THE DOLLAR SHOWED SIGNS OF STRENGTHENING AS THE WEEK CLOSED. THE AVERAGE EFFECTIVE DEPRECIATION OF THE POUND AGAINST MAJOR TRADING PARTNERS, ON THE OTHER HAND, CON-

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

RSC-01 CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-03 SIL-01

L-02 H-02 PA-02 PRS-01 USIA-15 /110 W

----- 124247

R 151840Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5753

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

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USMISSION EC BRUSSELS

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TINUED TO WIDEN. MEASURED AGAINST THE SMITHSONIAN PARITIES OF BRITAIN'S 10 MAJOR TRADING PARTNERS, THE AVERAGE DEPRECIATION WIDENED FROM LAST THURSDAY'S LEVEL OF 18.8 PERCENT TO 20.3 PERCENT ON THURSDAY (NOV 14).

3. THE PRICE OF GOLD ROSE TO RECORD LEVELS (EXCEPT FOR A SLIGHT DROP ON MONDAY, NOV. 11, IN RESPONSE TO PRESS UNCLASSIFIED

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REPORTS THAT THE U.S. MAY REQUEST A DELAY IN THE DECEMBER 31 DATE FOR ALLOWING PRIVATE U.S. OWNERSHIP). GOLD CLOSED THURSDAY (NOV 14) AT \$188.50, UP \$10.25 OVER LAST THURSDAY'S CLOSE.

II DOMESTIC

4. THE MAJOR EVENT OF THE WEEK, AND OF THE NEXT FEW MONTHS, WAS THE PRESENTATION OF THE BUDGET ON NOVEMBER 12. THE BUDGET'S MAJOR PROVISIONS ARE RELIEF TO THE COMPANY SECTOR, A RISE IN VAT ON GASOLINE, STRICT LIMITATIONS ON PUBLIC EXPENDITURE GROWTH, AND A RATIONA-LIZATION OF NATIONALIZED INDUSTRY PRICES. (SEE REFTELS)

5. THE QUARTERLY SURVEY OF THE BUSINESS CLIMATE BY THE

CONFEDERATION OF BRITISH INDUSTRY (CBI) SHOWED THE GLOOMIEST OUTLOOK IN EIGHT YEARS. OF THE 1237 RESPON-DENTS REPRESENTING ABOUT 3 MILLION JOBS AND HALF OF THE U.K.'S MANUFACTURED EXPORTS, 60 PERCENT ARE LESS OPTI-MISTIC ABOUT THE GENERAL BUSINESS SITUATION. IN THE PREVIOUS SURVEY, 50 PERCENT WERE LESS OPTIMISTIC. THE PROPORTION OF THOSE EXPECTING LESS CAPITAL EXPENDITURE IN MACHINERY AND BUILDINGS ROSE FROM 38 PERCENT TO 55 PERCENT AND FROM 43 PERCENT TO 55 PERCENT RESPECTI-VELY. THE CBI INTERPRETS THESE FIGURES AS IMPLYING A 10 PERCENT DECREASE IN INVESTMENT NEXT YEAR ON PRE-BUDGET POLICIES. THE SURVEY ALSO INDICATED INCREASING WORRY AMONG RESPONDENTS ABOUT THE OUTLOOK FOR EXPORTS AND NEW ORDERS FOR BOTH EXPORTS AND THE DOMESTIC MARKET. THE SURVEY INDICATES THAT ALMOST ALL RESPONDENTS EX-PERIENCED COST INCREASES OVER THE PAST FOUR MONTHS.

6. T INDEXES OF WHOLESALE PRICES ON AN "INPUT" AND AND AN "OUTPUT" BASIS SHOWED SUBSTANTIAL INCREASES IN

OCTOBER OVER THE PREVIOUS MONTH. THE "INPUT" INDEX WHICH COVERS RAW MATERIALS, FUEL, AND FRESH FOODS ROSE BY 3.25 PERCENT, WHILE THE "OUTPUT" INDEX, WHICH COVERS MANUFACTURED GOODS AND PROCESSED FOODS EX-FACTORY, ROSE BY 1.75 PERCENT. IN THE FORMER CATEGORY ABOUT A THIRD OF THE INCREASE IS ATTRIBUTED TO OCTOBER OIL PRICE INCREASES. THE "INPUT" INDEX IS NOW 38 PERCENT ABOVE ITS LEVEL OF A YEAR AGO. THE "OUTPUT" INDEX HAS RISEN 26 PERCENT IN THE PAST 12 MONTHS. PROCESSED FOOD PRICES JUMPED BY 2.75 PERCENT, AND THIS PLUS HIGHER AUTO PRICES MADE UP HALF OF THE "OUTPUT" INDEX RISE.

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7. OVERALL INDUSTRIAL PRODUCTION SHOWED A DECLINE IN SEPTEMBER AS DID THE PRODUCTION INDEX FOR MANUFACTURING INDUSTRIES. PART OF THE DECLINE IS DUE TO AN ABOVE-AVERAGE NUMBER OF DAYS LOST TO STRIKES, BUT PART OF THE DECLINE IS ALSO DUE TO WEAKENING DEMAND TRENDS. FOR SEPTEMBER, THE OVERALL INDEX STOOD AT 109.1 (FROM 110.1 IN AUGUST - A DOWNWARDLY REVISED FIGURE), AND THE MANUFACTURING INDEX SHOWED 109.8 (DOWN FROM A REVISED 111.8). (1970 EQUALS 100) WITH THE EXCEPTION OF THE FIRST QUARTER 1973 FOR THE MANUFACTURING INDEX, BOTH SEPTEMBER INDEXES ARE BELOW THE QUARTERLY AVERAGE FIGURES FOR ANY QUARTER IN 1973.

8. RETAIL SALES PROVISIONAL FIGURES FOR OCTOBER INDICATED A SLIGHT DECLINE ON A VOLUME BASIS (197L EQUALS 100). THE OCTOBER FIGURE IS 111.5, DOWN FROM 112.1 IN SEPTEMBER, (SEASONALLY ADJUSTED).

9. PRELIMINARY GDP FIGURES FOR THE THIRD QUARTER SHOW A ONE PERCENT GROWTH RATE FROM THE SECOND QUARTER, BUT NO GROWTH AT ALL OVER THE THIRD QUARTER OF 1973. THE REAL GDP INDEX IS AT 110.5 (1970 EQUALS 100-SEASONALLY ADJUSTED) FOR THE THIRD QUARTER OF 1974, UP FROM 109.4 IN THE SECOND QUARTER, 107.1 IN THE FIRST, AND 110.5 IN THE THIRD QUARTER OF 1973.

10. STERLING WEAKENED APPRECIABLY FOR FORWARD DELIVERY AS THE DISCOUNT AGAINST THE DOLLAR WIDENED SUBSTANTIALLY DURING MID-WEEK. THE FORWARD DISCOUNT ON STERLING WIDENED TO 3.20 CENTS AND 5.90 CENTS ON

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

RSC-01 CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-03 SIL-01

L-02 H-02 PA-02 PRS-01 USIA-15 /110 W

----- 124025

R 151840Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5754

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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WEDNESDAY FOR THREE AND SIX MONTH CONTRACTS, RESPECTI-  
VELY, BUT NARROWED AS THE WEEK ENDED.

|         | 11/7 | 11/14 | CHANGE  |
|---------|------|-------|---------|
| 1 MONTH | 0.70 | 0.75  | UP 0.05 |
| 3 MONTH | 2.35 | 2.55  | UP 0.20 |
| 6 MONTH | 4.85 | 5.50  | UP 0.65 |

(ALL FIGURES IN CENTS)

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11. EURODOLLAR RATES ROSE SLIGHTLY BUT THE MARGINS  
ON ONE, THREE AND SIX MONTH DEPOSITS REMAINED FAIRLY  
NARROW.

|         | 11/7  | 11/14  | CHANGE |
|---------|-------|--------|--------|
| 1 MONTH | 9-1/4 | 9-7/8  | UP 5/8 |
| 3 MONTH | 10    | 10-1/8 | UP 1/8 |
| 6 MONTH | 10    | 10-1/8 | UP 1/8 |

12. LOCAL AUTHORITY DEPOSIT RATES REMAINED STABLE  
THROUGH MOST OF THE WEEK, BUT ROSE SOMEWHAT AS THE  
WEEK ENDED.

|         | 11/7     | 11/14    | CHANGE |
|---------|----------|----------|--------|
| 1 MONTH | 11       | 11-3/8   | UP 3/8 |
| 3 MONTH | 11-11/16 | 11-15/16 | UP 1/4 |
| 6 MONTH | 12-3/16  | 12-9/16  | UP 3/8 |

13. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT  
11-1/2 PERCENT.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GOVERNMENT BUDGET, ECONOMIC DEVELOPMENT, ECONOMIC PROGRAMS, TRADE DATA  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 15 NOV 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
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**Document Unique ID:** 00  
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**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D740330-0982  
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**Office:** ACTION TRSE  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 7  
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**Previous Handling Restrictions:** n/a  
**Reference:** LONDON 14819, 14864, 14865, 14938  
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**TAGS:** ECON, UK  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005